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THE HOUSING BILLS OF 1959

THE climax to the bitter 6-month struggle over this year's legislation on housing and home finance finally is at hand. Whatever its fate may be, the Housing Act of 1959 will be of the greatest consequence for mortgage lenders. For whether or not the conference bill is signed into law, its final provisions -- as well as those which were dropped along the way -- constitute a revealing commentary on what Capitol Hill is thinking, and what it is apt to do in the future, in these two strategic realms.

Regarding the pending measure, most of the arguments pro and con have revolved around issues of cost. Thus, spokesmen for the Administration attacked the early versions as "inflationary" and "budget-busting." In rebuttal, its advocates have tried to show that the bill will have relatively little impact on Federal spending during the forthcoming fiscal year. This quarrel, indeed, persisted right through the proceedings of the Senate-House conference committee, called last month to iron out differences between measures passed by the two chambers. In its final form, according to Democratic leaders, the bill carried a price tag of less than $1.4 billion. The GOP, contrariwise, tagged it at over $2 billion. In either case, during the next 12 months at any rate, relatively little -- probably no more than $150 million -- is scheduled to be added to the $500-odd million budgeted last January for housing by the Administration.

The financial aspects of the legislation, to be sure, are not unimportant. However, they should not be allowed to obscure so completely its other provisions, some of which, for good or ill, could have a major impact on housing and home finance in the years to come. Let us look first at the relatively few which are considered either noncontroversial or acceptable to private lenders. To begin with, the bill increases the general mortgage insurance authority of FHA by $5 billion ($10 billion if it is signed prior to July 1). To facilitate trade-ins, moreover, and to avoid duplicate closing costs, it entitles a nonoccupant owner of a home financed under Section 203 to the same terms as an owner-occupant, provided that 15% of the mortgage proceeds are placed in escrow for 18 months.

Furthermore, the conference committee sensibly approved higher maximum interest rates on various FHA programs, notably on Section 207 (rental housing) loans and Section 213 (management-type cooperative housing) from 4-1/2% to 5-1/4%. (With respect to Section 213 sales-type housing, the maximum rate was increased to 5-3/4%.) In a separate action, the Senate, while

authorizing another $100 million in direct VA mortgage lending, unexpectedly approved an increase in the rate ceiling on VA loans to 5-1/4%. The change by now undoubtedly has been signed into law.

At the same time, however, the Housing Act of 1959, even as watered down from the original, contains a wide variety of provisions which, in effect or by intent, are unsound, inflationary or hostile to private lending. First, the bill in various ways would relax still further the terms governing mortgage ceilings, downpayments and maturities under various FHA programs. To illustrate, the maximum mortgage on Section 203 one-family dwellings, currently at $20,000, would be raised to $22,500.

Moreover, downpayment requirements, which today stand at 3% on the first $13,500 of FHA valuation, 15% of the value between $13,500 and $16,000 and 30% of any amount over $16,000, were changed to stipulate only 10% of the value between $13,500 and $18,000. The effect, of course, will be to lower sharply the minimum downpayments on more expensive dwellings. On a house with an FHA value of $22,000, to illustrate, downpayments would be trimmed from $2,580 as of now, to $2,055.

An even more significant move toward easier credit is the provision which stretches out the maximum term of FHA loans from 30 years to 35 years. Since the launching of FHA in 1934, the trend in this direction has been unmistakable. At various times, Congress has lengthened the maximum term from 20 to 25 to 30 years. (Currently, Section 221 low-cost urban renewal relocation housing and Section 213 sales-type cooperative housing permit 40-year maturities.) Now, if lenders are willing, 35 years apparently will become standard.

The newly liberalized terms have elicited sharp criticism from thrift institutions, which have labeled them "unnecessary and not in the public interest." For example, during the hearings before the House Subcommittee on Housing, Harry Held of the National Association of Mutual Savings Banks pointed out that the cost to the borrower increases sharply when maturities are lengthened. For example, he noted that on a $12,750 mortgage, the borrower would pay nearly $2,000 more in interest over the span of a 35-year loan, compared with one of 30 years. Overgenerous terms, Mr. Held observed, also tend to reduce the return flow of funds available to lenders for reinvestment, as well as prevent the building up of an adequate equity in the property. With a 35-year mortgage, return of principal runs to only about 5.7% in the first 5 years, a sum inadequate even to cover depreciation.

The Housing Act of 1959 also makes a number of changes, mostly for the worse, in the operations of the Federal National Mortgage Association. For one thing, it would authorize FNMA, under its secondary market operations, to purchase liens of $20,000, up from $15,000 at present. Moreover, in a section which expands the authority of the agency (and which happens to run counter to the latter's wishes), the bill authorizes Fannie Mae to make loans on pledged FHA and VA mortgages under certain conditions. In particular, such activities must be confined to areas where mortgage warehousing operations and in-

terim financing arrangements are not available on reasonable terms.

As to the special assistance functions of FNMA, the measure, in a provision reestablishing a rule which expired last August, stipulates that all such purchases, through September 30, 1960, must be made at not less than par. It also authorizes an additional $37.5 million for FNMA direct acquisitions of Section 213 loans. Happily, one of the most unpalatable of the proposed changes concerning Fannie Mae -- which would have compelled the agency to "aid in the stabilization of the mortgage market" -- was dropped in conference. Such a drastic shift in its mission, as FNMA President J. Stanley Baughman carefully explained, not only would have been inflationary, but also would have broken faith with the holders of some $42 million in FNMA common stock and more than $1 billion in FNMA debentures.

The pending measure would break fresh ground in several other ways. A case in point is housing for the elderly, which would be spurred by two wholly new programs. One, advanced originally in the Senate, adds a new Section 231 to NHA, covering new or rehabilitated housing for persons 62 years of age or more. Under this section, FHA could insure maximum loans of $9,000 per unit for garden-type structures (and $9,400 per unit for elevator-type structures), up to 100% of replacement cost for nonprofit corporations (and up to 100% of replacement cost, less any allowance for builder's or sponsor's profit and risk, for others). The maximum interest rate would be set at 5%, with authority for the FHA Commissioner, if necessary, to go to 5-1/2%. Under this section, by the way, FHA also could insure loans up to $12.5 million to facilitate construction of nursing homes.

The second scheme to aid the elderly sets up a program of direct loans to nonprofit corporations for new or rehabilitated housing. Under it, nonprofit corporations could borrow up to 98% of the cost of a project, for as long as 50 years, at a maximum interest rate not to exceed the average annual rate on all interest-bearing obligations in the U. S. public debt (approximately 3% at the present time). To begin with, the program was voted a so-called revolving fund of $50 million.

Both of these innovations, in the view of lenders, are unnecessary and unwise. They ignore the fact that existing programs for the elderly, according to no less an authority than Norman P. Mason, U. S. Housing Administrator, have been among "the most successful of all the new programs." They constitute a fresh demand on an already hard-pressed U. S. Treasury (which itself cannot borrow long-term these days at 4-1/4%), one which undoubtedly will mount over the years. Finally, they overlook, in cavalier fashion, the question of whether old folks actually want to live in special dwellings for the elderly. On this score, at least one well-known company which set out to develop land in Florida for retired folk has begun to have some sober second thoughts.

Still more far-reaching are provisions in the bill concerning foreclosures on FHA mortgages. For one thing, defaulted interest payments in future may be covered by the debentures which the agency issues in event of ultimate fore-

closure. Far more important, the bill authorizes the FHA Commissioner, "for the purpose of avoiding foreclosure" of mortgages on one- to four-family dwellings, to acquire the loan and security therefor by issuing debentures to the mortgagee.

On the surface, these provisions are designed to encourage lenders "to extend forbearance" in case of emergency or temporary distress, as is done under the VA lending program (the idea was hatched during the depths of last year's recession). In fact, in a departure which strikes a heavy blow at the concept of FHA as a system of mutual insurance, they threaten to turn the agency into another Home Owners' Loan Corp.

No less sweeping are the policy revisions which the measure would make in public housing. To be sure, in its final version, the bill authorizes no more than 45,000 additional public housing units, a figure which represents a sharp cutback from the 140,000 - 190,000 units voted by the lower chamber. However, for the first time since the postwar program was launched under the Wagner-Ellender-Taft Act of 1949, local public housing authorities would be freed of the tight control of the Public Housing Administration and given broad authority of their own over such vital matters as income limits of tenants, eligibility standards, and rents.

Again one must look beneath the surface to see where this proposal could lead. At first glance -- and so it was presented by its advocates -- the change seems to be a desirable step away from the centralized control of Federal bureaucrats and toward independent local action by responsible private citizens. The fact is, however, that local housing authorities are not subject to supervision by either State or local officials, with the result that there would be practically no control over the use of Federal funds. Lacking Federal curbs, the testimony of PHA officials indicates, local authorities, in theory at any rate, could rent public housing units to families whose incomes run as high as $12,000 - $14,000 a year.

In view of all the foregoing, the ultimate fate of the bill remains very much in doubt. At one time FHA, which needs periodic restoking of its insurance authority, was viewed widely as a hostage for the rest of the omnibus bill. However, by such devices as "agreements to insure," which are, in effect, delayed firm commitments, the agency has succeeded in stretching out its authorization for longer than anyone would have dreamed possible 6 months ago. As of now, according to the latest word from Washington, FHA has nearly $1.5 billion of mortgage authority left (against which it has issued more than $3.5 billion of agreements to insure). Moreover, FHA keeps recapturing old authorization, out of unused commitments and paid-off mortgages, on an average of $500 million per month.

In the circumstances, the White House well may decide that what is wrong with the Housing Act of 1959 far outweighs what is right, and resort to the veto. In any case, the evidence suggests that the threat to sound mortgage lending, far from slackening, continues to grow apace.